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Informality and Corruption Perceptions in Russia's Regions: Exploring The Effects of Gubernatorial Turnover in Patronal Regimes

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Introduction

The endemic nature of corruption in Russia's political economy has long become a common knowledge both inside and outside the country. The societal understanding of corruption issues is constructed, on one hand, by the Russian political opposition that uses official corruption exposure to mobilize political support behind its cause, as best exemplified by Alexey Navalny's investigations.¹ Anti-corruption policies and campaigns are also used as a legitimacy-building tool by the incumbent elites. The Kremlin initiated anti-corruption campaign has gained a momentum in the last few years and has touched high-ranking state officials that formerly were untouchable. The start of the new 'anti-corruption era' is associated with Vladimir Putin's third term in power and the first high scale scandal involving Anatoly Serdyukov, then Russia's minister of defense.² Over the period of last six years the reach and the scale of anti-corruption activities in Russia have widened dramatically. Since 2015 five regional governors have

¹ The wide scale protests in Russia on March 26, 2017, for example, followed Navalny's report about the luxury property holdings of Russia's prime minister, Dmitry Medvedev, who allegedly owns mansions, villas and yachts both inside and outside the country. As is often the case with such property, it is registered through offshore companies and is managed by Medvedev's friends and associates. Medvedev's spokesperson dismissed the report as the 'propaganda rant from the opposition (see Ioffe 2017).

² Dmitry Travin, "Putin i korruptsia," Rosbalt, October 26, 2017. (<http://www.rosbalt.ru/blogs/2017/10/25/1655851.html> (accessed on March 30, 2018). See also Will Englund, "Putin fires Russian defense chief tied to corruption scandal," Washington Post Nov. 6, 2012. https://www.washingtonpost.com/world/europe/russian-defense-chief-fired/2012/11/06/f9e5e89c-2816-11e2-bab2-eda299503684_story.html?utm_term=.7df404444cdc 2012 (accessed on March 30, 2018).

been fired and arrested on corruption charges.³ Several of them were already given harsh sentences.⁴ Russia's top economic official, Alexey Uliukaev, was dismissed from his post in 2016 and charged with extorting a \$2 million bribe from the state oil company Rosneft.⁵ In the last few years the law enforcement agencies have been activated across the regions, placing them into a unique position of enhanced influence among the regional actors.⁶ The position of the regional governor that used to be the lynchpin of the regional political system seems to have been undermined by the growing relevance and repressive trends associated with the law enforcement agencies and the control over the regional cadres exercised by the Kremlin.

The high political salience of corruption in Russia is not accidental. It reflects the degree to which it has permeated the economic and social life of Russian citizens – whether of those engaged in business, who might be trying to get through all the common obstacles to doing business in Russia, or those who might be encountering it in their everyday life. According to recent studies, 35% of Russian entrepreneurs had to give bribes or gifts to state officials; furthermore, half of all the business actors were involved in some type of corruption schemes.⁷ Public procurement system in Russia is one of the sites where

3 Aleksandr Khoroshavin (Sakhalin), Nikita Belykh (Kirov), Vyacheslav Gaiser (Komi), Aleksandr Solovyev (Udmurtia), and Leonid Markelov (Mari-El).

4 Nikita Belykh was sentenced for 8 years in prison; Aleksandr Khoroshavin was sentenced for 13 years.

5 “Russian Economy Minister Ulyukayev charged with \$2m bribe,” BBC news, November 15, 2016. <http://www.bbc.com/news/world-europe-37983744> (accessed March 30, 2018).

6 Regional governors have indeed commented on the importance of establishing working relationships with the law enforcement agencies in the regions. It is evident that these regional branches of federal agencies have acquired an additional clout as a result of the anti-corruption campaign.

7 “Na issledovanie korruptsii v Rossii vydeleno 2.5 milliona evro,” January 30, 2017. <https://ptzgovorit.ru/news/na-issledovanie-korruptcii-v-rossii-vydelili-25-milliona-evro> (accessed March 30, 2018).

corruption is still very common despite the reforms undertaken in 2005-2006.⁸ The Russian judicial system, law enforcement, tax and custom administration also present the economic actors with high corruption risk (Russia Corruption Report).⁹ Bribes are common in Russian citizens' everyday life as well. Russia's healthcare and education system as well as the spheres of science and culture have also been named among the most corrupt spheres in Russia.¹⁰

The rich literature and expanding research on corruption notwithstanding, there are still big gaps in our knowledge both about actual corrupt practices as well as the sources and determinants of corruption perceptions in Russia. The actual and perceived corruption, for example, must be differentiated because they are not always correlated and might have different causes and consequences. Such factors as recent media reports and visible corruption scandals, use of negative campaigning in politically competitive elections, expert ratings, level of cynicism in the society, perceived injustice and various other environmental/contextual factors influence corruption perceptions.¹¹ Nonetheless, many

⁸ See Andrei Yakovlev, Lev Yakobson, and Maria Yudkevich. "The public procurement system in Russia: road toward a new quality." *Functional Analysis of the Public Procurement System in Russia and proposals to improve it*. HSE Publishing House, Russia (2009); Anna Balsevich and Elena A. Podkolzina. "Indicators of Corruption in Public Procurement: The Example of Russian Regions." (2014).

⁹ "Russia Corruption Report," <http://www.business-anti-corruption.com/country-profiles/russia> (accessed March 30, 2018).

¹⁰ Iuditskaya, Anastasia. "Kolokol'tsev nazval samye korrumpirovannye sfery v Rossii," RBC news, October 5, 2016. <http://www.rbc.ru/politics/05/10/2016/57f4ddb39a79471c1a6fc13d> (accessed March 30, 2018)

¹¹ See for example, Richard Rose and William Mishler "Experience versus perception of corruption: Russia as a test case," *Global Crime* 11, no. 2 (2010): 145-163; Daniel Treisman, "What have we learned about the causes of corruption from ten years of cross-national empirical research?," *Annual Review of Political Science* 10 (2007): 211-244; Gulnaz Sharafutdinova, "What explains corruption perceptions? The dark side of political competition in Russia's regions." *Comparative Politics* 42 (2), (2010): 147-166; Benjamin Olken, "Corruption Perceptions vs. Corruption Reality" *Journal of Public Economics* 93 (7), (2009): 950-964;

studies, including those on corruption in Russia, still rely on corruption perceptions as the key indicator of actual corruption.¹²

Reported corruption is another tricky indicator that, instead of reflecting the actual experiences with corruption, might vary depending on the respondents' fear of retribution, prevailing norms against corruption, and even the wording in the questionnaire that might seem as self-incrimination to respondents.¹³ Given the subject's sensitivity, the process of uncovering the cases of corruption is difficult and the results could be inaccurate. Most research on corruption relies on surveys and self-reports of individuals, firm managers or government officials. But there is a high likelihood that they underreport the problem. Scholars have tried to devise instruments for diagnosing and estimating the prevalence of reticent behavior.¹⁴ But the problem of accuracy in capturing the extent of this phenomenon is still very acute.

Furthermore, corruption is a very general term that captures a wide variety of activities from petty bribery to state capture, and nepotism, and from complex kickback schemes in the process of government procurement to shaping laws and regulations for the benefit of specific economic actors. Not surprisingly, it might mean different things to different respondents. Therefore, blank statements about widespread corruption could be hiding very different realities of how corruption works in specific cases and what its political, social and economic impact might be. Many sociologists therefore take a critical approach towards many large-N, cross-national corruption studies that rely on numerical indicators and western, instrumentalist definitions of corruption calling instead for a non-judgmental analysis of exchange economies - to understand corruption in its specific

Veronika Belousova, Rajeev K. Goel, and Iikka Korhonen, "Causes of corruption in Russia: A disaggregated analysis" (2011).

¹² Oleg Sidorkin and Dmitriy Vorobyev. "Political cycles and corruption in Russian regions," *European Journal of Political Economy* (2017).

¹³ Treisman 2007.

¹⁴ Art Kraay and Peter Murrell. "Misunderestimating Corruption," *Policy Research Working Paper #6488*, The World Bank (2013).

contexts, bounded by multiple rationalities approached from the insider rather than outsider perspective.¹⁵ In the Russian context, for example, the issue of difficulties in studying corruption emerge in the context of exploring the systemic nature of corruption in Russia – an inherent feature of the Russian state working primarily within the paradigm of administrative rent-seeking rather than public goods provision.¹⁶ When corruption is systemic and intrinsic to state functioning, any anti-corruption activity on the part of the ruling elite appears to have political or rent-seeking purpose. The real anti-corruption struggle then is expected to take a format of a broader political opposition movement aiming at constructing a new state system dedicated to public goods provisions and envisioned as such by the society members and the state officials.¹⁷

It is widely agreed that corruption matters mostly through its link to governance and its effect on investment, economic growth and development.¹⁸ It is important therefore to understand corruption from the point of view of economic actors and their perceptions of the extent to which corruption is viewed as an obstacle to their operations. The diversity of Russian regions in this regard serves as a good laboratory for exploring the various factors that might be associated with corruption perceptions. Russia is also an interesting

¹⁵ Marina Zaliznaya, "Beyond Anti-Corruptionism: Sociological Imagination and Comparative Study of Corruption." *Comparative Sociology* 12 (5), (2013): 705-751; Svetlana Barsukova and Alena Ledeneva, "Ot global'noi korruptsionnoi paradigmy k izucheniiu neformal'nykh praktik: razlichie v podkhodakh autsajderov i insajderov," *Voprosy ekonomiki* no. 2, (2014), 118-132. Vladimir L. Rinski, "Biurokratiia, klientelism i korruptsia v Rossii," (2011).

¹⁶ Ella Paneyakh, "Goriuche-smazochnoe sredstvo" *Otechestvennye zapiski* 2 (2012): 47.

¹⁷ Some recent studies, however, show that some anti-corruption policies, such as financial disclosure laws, are effective even in the Russian context. See David Szakonyi, "Anti-Corruption Campaigns and Political Selection: Evidence from Russia," (March 21, 2018). Available at SSRN: <https://ssrn.com/abstract=3101123>

¹⁸ Paolo Mauro, *Why worry about corruption?*. Vol. 6. (International Monetary Fund, 1997); Vito Tanzi and Hamid Davoodi. "Corruption, public investment, and growth," in *The welfare state, public investment, and growth*, pp. 41-60 (Springer, Tokyo, 1998); Edgardo J. Campos, Donald Lien, and Sanjay Pradhan, "The impact of corruption on investment: Predictability matters." *World development* 27.6 (1999), 1059-1067.

case to study corruption perceptions because corruption permeates all spheres of the state and society and almost everyone is implicated in some kind of informal or corrupt behavior. Therefore, one could expect many contradictions and complexities in how people perceive the extent of corruption surrounding them given their awareness of potential legal vulnerabilities in their own behavior. One could be both critical of the degree of corruption in the government but also reveal complacency when it comes to individual strategies of resolving problems (i.e. ready to give a bribe if it helps to resolve a problem). “The system made me do it” logic appears very prevalent in many corrupt countries.¹⁹ It is also plausible to expect that peoples’ opinions about corruption might be conditioned by their assessment of its systemic, routinized nature and their belief in the plausibility of reducing corrupt practices. If there is a widespread cynicism about how the system itself operates, then the changing corruption perceptions are likely to reflect factors other than actual corruption.

The same logic is likely to apply to corruption perceptions of economic actors – firms and enterprises – that operate under regulatory and administrative regimes that impose various pressures and induce them to seek informal means of resolving the problems they encounter. As the administrative and regulatory environment changes over time, the adjustment strategies are likely to change as well. Thus, an important shift in tax compliance occurred in the early 2000s and created new incentives for economic actors to rely more on legal strategies to resolve conflicts as opposed to illegal, corruption-based strategies.²⁰ But corruption indicators from enterprise surveys in Russia reveal some interesting paradoxes: while the more direct questions on bribe frequency show some improvements between 2008 and 2011, the more general and indirect questions on the need for bribes to get things done show the situation somewhat worsening in the same

¹⁹ Rasma Karklins, *The system made me do it: corruption in post-communist societies*. (ME Sharpe, 2005).

²⁰ Jordan Gans-Morse, "Demand for Law and the Security of Property Rights: The Case of Post-Soviet Russia," *American Political Science Review* 111.2 (2017), 338-359.

period.²¹ Furthermore, the analysis of corruption perceptions in the regions based on 2011 BEEPS data revealed some additional unanswered questions and contradictions between the real and perceived corruption. While corruption might have been growing in the regions with longer-sitting governors, firms tended to choose ‘corruption as number one obstacle’ less often.²²

In this study I address these, corruption perceptions related, puzzles in the Russian context by testing a theory of patronal presidentialism advanced by Henry Hale.²³ This theory brings attention to the systemic nature of informal, patronal linkages connecting economic and political elites in many post-Soviet countries and to the special role of the president – a country leader – who combines formal and informal mechanisms of control and plays a role of a chief arbiter determining access to resources and influence for his clients. Because of the integrated nature of the political economy in such systems that relies on informal patronage and political connections, the periods of power transfer turn into periods of uncertainty for political and economic elites and can lead to open inter-elite conflicts, defections, and challenges. Such political destabilization can be reflected, among other things, in increased corruption perceptions driven by (1) corruption becoming more visible and public in the context of inter-elite conflicts, or (2) by the economic actors’ sense of insecurity motivated by the upcoming changes in the system.

The remaining of the study is organized into four parts including theoretical background and hypotheses; description of the data and methodology; presentation of results; and the discussion of main findings.

²¹ Kisunko, Gregory, and Stephen Knack. "Russian Federation: National and Regional Trends in Regulatory Burden and Corruption," In *Wealth, Income Inequalities, and Demography*, pp. 45-104 (Springer International Publishing, 2014).

²² Sharafutdinova and Steinbuks (2017), 12-13.

²³ Henry Hale, "Regime cycles: democracy, autocracy, and revolution in post-Soviet Eurasia." *World Politics* 58, no. 1 (2005), 133-165; Henry Hale, *Patronal politics: Eurasian regime dynamics in comparative perspective* (Cambridge University Press, 2014).

Theoretical Background and Hypotheses

This study is motivated by the idea that understanding corruption perceptions in Russia has to take into account the insider view of corruption and be based on comprehending the nature of the system economic actors operate in. If it is true that corruption is the main mode of operation and, indeed, the very *raison d'être* for the system's maintenance, then it is hard to expect that perceptions reflect the reality of corruption and that changes in corruption perceptions actually reflect changes in actual corruption. The actors' own involvement in corruption is likely to condition their assessment and perceptions. This would mean that other factors are likely to be involved in driving the changes in corruption perceptions.

Russia stands out among many other countries by the prevalence of 'insider entrepreneurship.' New businesses can enter the market only if the business owners are part of informal networks and have important political and business connections.²⁴ Without such connections and embedded-ness in existing networks new ventures quickly die out.²⁵ This phenomenon reflects the general weakness of the institutional environment in Russia characterized by weak property rights and contract enforcement. Informal networks substitute dysfunctional formal institutions to a certain extent but this effect comes at the cost of selection and survival of businesses with connections to state administration rather than those that would be most competitive or innovative. This situation has been only growing more negative over time. Scholars have suggested therefore that the institutional environments such as that of Russia require new analytical approaches to explore the effects of such environment on behavior and perceptions of actors working within it.²⁶

²⁴ Ruta Aidis, Saul Estrin, and Tomasz Mickiewicz. "Institutions and entrepreneurship development in Russia: A comparative perspective." *Journal of Business Venturing* 23, no. 6 (2008), 656-672.

²⁵ Ibid.

²⁶ Ibid; Sharafutdinova and Steinbuks (2017).

In this study I rely on theory of ‘patronal presidentialism’ that allows for the systematic exploration of the effects of such particular institutional environment on the actions and perceptions of political and economic actors embedded in it.²⁷ Hale’s original theory was developed to explain regime cycles in the post-Soviet region but its applicability goes beyond the issue of political regime dynamics. This approach views the institutional environment (such as that of Russia) as characterized by the dominance and the ‘taken-for-granted’ nature of informal exchanges between social, political and economic actors. Formal institutions and procedures in such systems matter to the extent that they shape actors’ expectations about who is in charge. Those on the top of the formal power pyramid (such as presidents) combine formal and informal power mechanisms and resources and become the ultimate source of authority within their jurisdictions. Periods of uncertainty ensue at the moments when such authority figure faces a potential power transition – either due to upcoming elections, aging or illness issues that can affect the expectations of major players in relation to the likely successor. Given that access to power resources and economic wealth are highly intertwined in such systems the stakes involved in power transition are extremely high. Therefore, the prospects for political change cause increased inter-elite conflict and competition as different groups jockey for influence and for an increase of their chances to shape the outcomes of power transition.

Although designed to explain the national-level political developments, this theory is effective at the subnational level as well.²⁸ In Russian regions governors play the role of an ultimate patron who combines formal and informal mechanisms of power. Most informal exchange networks in the regions therefore involve regional authorities and regional businesses that have survived through the years have to build productive

²⁷ Hale 2005, 2014.

²⁸ For an application, see Ildar Gabdräfikov and Henry Hale, "Bashkortostan’s Democratic Moment? Patronal Presidentialism, Regional Regime Change, and Identity in Russia." *Reconstruction and Interaction of Slavic Eurasia and Its Neighboring Worlds*, Hokkaido, Sapporo University Slavic Research Center (2006), 75-102.

relationships with regional authorities.²⁹ This also means that periods of political transition might be perceived as very costly to economic actors who, having invested resources into building social capital with present authorities, would fear losing their privileges (or even more simply an ability to do their business and make profits) if the authorities change. Firms value stability and predictability.³⁰ Such moments of uncertainty are clearly not welcome by economic actors and are associated with the worsened business environment in the regions.³¹ Their implications for actual and perceived corruption might be significant as well. Specifically, in accordance with the theory of patronal presidentialism I hypothesize that the proximity of gubernatorial turnover is associated with increased corruption perceptions on the part of regional economic actors. Furthermore, because this theory builds on actors' expectations, it is important to distinguish between expected and unexpected power turnovers. When a power transition occurs unexpectedly (due to governor dying or being replaced for personal reasons), the logic outlined by theory would not apply. Hence, my first hypothesis is as follows:

H1. Regional level corruption perceptions are higher in regions where economic actors go through or expect a gubernatorial change/turnover.

²⁹ Timothy Frye, 'Capture or exchange? Business lobbying in Russia', *Europe-Asia Studies*, 54, (2002), 1017–1036; Sharafutdinova, Gulnaz. *Political consequences of crony capitalism inside Russia* (Notre Dame, IN: University of Notre Dame Press, 2010); Irina Slinko, Yakovlev, Yvgeny and Ekaterina Zhuravskaya, 'Laws for sale: Evidence from Russia', *American Law and Economics Review*, 7, (2005), 284–318; Andrei Yakovlev, "State-business Relations in Russia in the 2000s: From the Capture Model to a Variety of Exchange Models?" BOFIT Discussion Paper 10, Helsinki: BOFIT 2011.

³⁰ Avinash K. Dixit and Robert S. Pindyck. *Investment under uncertainty* (Princeton university press, 1994).

³¹ Sharafutdinova and Steinbuks (2017); Irina Levina, Gregory Kisunko, Israel Marques, and Andrei A. Yakovlev. "Uncertainty as a factor in investment decisions: the case of the Russian Federation's regions." (2016).

At the same time, expectations of gubernatorial change might not always be followed by actual gubernatorial transition and some governors can keep their posts in the midst of growing scandals and predictions of their upcoming exit. There are a number of governors whose stay in power was surrounded by various scandals from the beginning of their term in power. The cases of Mikhail Yurevich, ex-governor of Chelyabinsk oblast, or Vladimir Artyakov, ex-governor of Samara oblast are telling. Regional protests against Artyakov started already in 2010, but he stayed in power until 2012. Also, some governors that might have started their work in a politically difficult environment associated with inter-elite conflicts, might still stay on. The example of Rustem Khamitov, who replaced Bashkortostan's heavyweight Murtaza Rakhimov, is a case in point. Khamitov was re-elected for his second term in 2014 and is likely to keep his post still. Accordingly, my second hypotheses states that:

H2. Regional level corruption perceptions are higher in the regions that experience increased inter-elite conflict and public scandals even if such conflict does not result in an immediate gubernatorial turnover.

Additionally, the causal mechanism of increased corruption perceptions might not only reflect mental anxieties and uncertainties about the ongoing or expected political transitions but actual changes in rules of the game in terms of informal payments expected from the businesses and illicit actions of state officials. Indeed, some studies of regional corruption in Russia have uncovered the presence of political cycles revealed through governors' increased corruption at the end of their term or their activities to finance electoral campaigns.³² Therefore, my last hypothesis states that:

H3. The indicators of actual corruption are higher in regions where economic and political actors go through or expect political/gubernatorial transition.

³² Sidorkin and Vorobyev 2017; Maxim Mironov and Ekaterina Zhuravskaya, "Corruption in procurement and the political cycle in tunneling: Evidence from financial transactions data." *American Economic Journal: Economic Policy* 8, no. 2 (2016), 287-321.

Data, Measurement, and Methodology

The analysis of regional corruption indicators in this study relies on the data and operationalization of corruption produced by the Business Environment and Enterprise Performance Survey (BEEPS) implemented by the World Bank and the EBRD. The latest 2011 round of BEEPS for the Russian Federation was for the first time designed to be representative of Russian regions. The survey includes several measures of different types of corruption including indicators of (1) regulatory or administrative burden (i.e. the administrative costs incurred by firms in dealing with government regulation of business); (2) state capture (i.e. individual actions aimed at influencing the formation of legal and regulatory environment in the region); (3) administrative corruption. Previous studies relying on these data have shown that regional variation in corruption indicators is significant and underexplored.³³ So exploring the factors linked to that regional variation appears a worthwhile endeavor.

The BEEPS survey combines perception and experience-based questions designed to explore patterns of interaction between firms and state actors across a variety of spheres. On the issue of corruption firms (usually represented by their managers) were asked to rate corruption as an obstacle to their operations (for descriptive statistics see Graph 2) as well as a number of questions on the need for informal payments/gifts (i.e. bribes) to get things done in various spheres such as getting licenses, construction permits, water and electricity connections, customs, etc. A question about the percentage of sales spent on informal gifts was intended to get a numerical indicator of real corruption (for descriptive statistics see Graph 1). Additionally, three indicators of state capture were used to get at a more systemic corruption in the regions. These indicators were constructed using questions such as: “To what extent private payments/gifts or other benefits to parliamentarians (or, alternatively, to government officials, or local and regional officials) to affect their votes had a direct impact on this establishment?” All these

³³ Kisunko and Knack 2013; Sharafutdinova and Steinbuks 2017.

measures were used as different corruption indicators, differentiated between indicators of corruption perceptions and experience of corruption. A total of 4220 firms were surveyed across 37 regions with approximately 120 firms per region.

The H1 explanatory variable of the expected and ongoing gubernatorial turnover was operationalized in three different ways. The first operationalization sought to capture the environment in the regions where governor turnover was about to occur (I use 24 months cut-off line to allow for the sufficient number of observations for the analysis). A dummy variable was constructed for regions where firms saw their governors being replaced within two years the 2011 BEEPS survey was administered. This operationalization relies on the assumption that the upcoming turnover is expected by regional economic actors. This assumption is true in many cases when governors' troubles are frequently publicly discussed in the media, especially when the governor is involved in public scandals and elite conflicts.³⁴ At the same time, it might not accurately reflect the situation in the regions where gubernatorial change occurs abruptly.³⁵ The second measure of expected political transition was created by measuring general political volatility in the region as manifested in the frequency of regional gubernatorial turnovers. I created an indicator of regional turnovers by counting the number of gubernatorial transitions in the region since 1991. This indicator of general political volatility in the region is expected to shape economic actors expectations of political change (i.e. those who have gone through more rounds of transition would tend to expect more change and those who have been used to working in a stable political environment would be operating with expectations for stability to continue) and, thereby, shape corruption perceptions as expected by Hypothesis 1.

³⁴ On the impact of such scandals on governor's standing, see for example, the 2018 report by APEC (Agency for Political and Economic Communication), summarized here:

<http://fedpress.ru/article/1954394>

³⁵ The arrest of Komi's ex-governor Vyacheslav Gaiser in November 2015, for example, was very abrupt and unexpected. For the commentaries from the regional officials see at:

<http://tass.ru/proisshestviya/2275558>

A different operationalization sought to capture the circumstances of an ongoing power transition in the regions where the governor change occurred recently. The same cut-off line of 24 months was used to create a dummy variable of a recent political transition. The expectation with all of these indicators is that corruption perceptions would be higher in regions where more uncertainties are produced (or expected) by political change.

The H2 explanatory variable was created as a dummy variable capturing the presence of inter-elite conflicts and regional scandals – during 2010-2012 - that spilled over in the regional and federal media. I relied on media reports and expert analysis to create this variable and distinguish the regions where governors experienced public pressures associated with criminal investigations against their close associates, conflicts with big businesses, various scandals and media campaigns, sometimes related to cases where governors were not able to establish control over a specific situation, thereby causing public criticism and blame.

Finally, H3 used the same explanatory variables as H1 replacing the DVs focused on corruption perceptions with the indicator that was created to measure corruption experience.

I used ordered logit regression models for ordinal DVs in four different specifications to avoid multicollinearity issues. Specifically, due to high correlation between the indicator for the upcoming political change and inter-elite conflicts, I divided them between models 1 and 3,4. Additionally, for the continuous DV of actual corruption, I used Heckman selection model also in four different specifications.³⁶ The first specification includes the indicator for the upcoming pol change and the recent gubernatorial transition. The second specification includes conflicts and transition. Third specification includes only conflict indicator and the forth specification includes only the upcoming political change.

All models include control variables of firm age, size, sector, ownership, gross regional

³⁶ Following Sharafutdinova and Steinbuks 2017.

product (GRP) composition (construction, retail and extractive sectors as a percentage of GRP); log of regional GRP; population density; and regional shares of state-owned and privately owned enterprises. These controls were selected based on earlier studies that have demonstrated these factors to be associated with firms' perceptions of business environment.³⁷ Additionally, I include controls for the insider-outsider status of governors following the findings in a study of regional business environment in Russia that regional actors have a strong preference for insider governors.³⁸

Results

All the results are aggregated in three tables with Table 1 presenting the findings on various indicators of corruption perceptions, Table 2 presenting the results on state capture indicators and Table 3 - on the measure of actual corruption. The findings provide an overall support for Hypothesis 1 that links corruption perceptions to political transitions. Specifically, the most consistent result reveals increased corruption perceptions in regions that have undergone political change in the last twenty-four months. Whether asked about the frequency of informal payments to courts, tax authorities, customs/imports services, or about perceived impact of lobbying the government officials and parliamentarians (the state capture indicators), firms see more corruption in the regions that have undergone a recent political transition. In these regions perceptions of corruption as an obstacle are also higher.

³⁷ Meghana Ayyagari, Asli Demirguc-Kunt and Vojislav Maksimovic, V. (2008). 'How important are financing constraints? The role of finance in the business environment', *World Bank Economic Review*, 22 (2008), 483–516; David Dollar, Mary Hallward-Driemeier and Taye Mengistae, 'Investment climate and firm performance in developing economies', *Economic Development and Cultural Change*, 54 (2005), 1–31; Benn Eifert, Alan Gelb and Vijaya Ramachandran, 'The cost of doing business in Africa: Evidence from enterprise survey data', *World Development*, 36, (2008), 1531–1546.

³⁸ Sharafutdinova and Steinbuks 2017.

The indicator of expected political transition has not produced consistent results however. Only on one of the state capture measures this indicator works in the expected direction and is statistically significant. The rest of the results show the correct direction of the relationship but are not statistically significant. The indicator of general political volatility, on the other hand, also produces very consistent results. Firms in regions that undergo more frequent political change tend to report more frequent informal payments to various state authorities and perceive greater level of state capture. The correlation coefficients are all statistically significant and in the expected directions. Somewhat puzzlingly, corruption is also seen as less of an obstacle in these regions. Potential reasons for this discrepancy are discussed in the next section.

The second hypotheses – that corruption perceptions are higher in regions with higher level of inter-elite conflict – is also supported in this analysis. Models 3 and 4 that incorporate this measure reveal that firms in regions with higher level of conflict tend to report more frequent informal payments to various state authorities and perceive greater level of state capture. At the same time, yet another puzzling finding is that the heightened corruption perceptions do not translate into viewing corruption as a bigger obstacle in such regions.

The third hypothesis could only be tested with one, potentially problematic, measure of actual corruption. Indeed, the results are somewhat inconsistent. While the indicators of political volatility and the ongoing political transition show the results expected based on Hypothesis 3, confirming that political volatility might lead to increased actual corruption, the measures of elite conflict and expected political change measured through the upcoming transition work to decrease actual corruption when measured through the share of annual sales spent on informal payments.

Discussion

Scholars of post-Soviet political economy have frequently noted the specific mode of interaction between the political and economic spheres in these countries. Various terms such as crony capitalism, patrimonialism, patronalism, closed-access order, informal economic-political networks, and clans have been used to bring attention to the peculiarities of the institutional order that has emerged in this region and the main actors operating in it. When economic activity is closely connected with the state and the political sphere, the incentive structures, worldviews, attitudes and other perception-based variables differ dramatically from those in different types of institutional orders and require a more nuanced analysis that takes into account the specificity of the system that affects the actors' disposition within it. Hale's theory of 'patronal presidentialism' allows for such exploration and was used in this study to develop hypotheses about regional corruption and corruption perceptions – as viewed by regional economic actors in the Russian Federation. The statistical analysis of corruption perceptions in 37 of Russian regions has confirmed the two hypotheses that have linked corruption perceptions to political volatility and change. As predicted by theory of patronal presidentialism, in the system dominated by a chief executive who controls a variety of formal and informal resources, the question of political stability – the ongoing control of the rules of the game by the same person on the top of the pyramid - is central to the predictability of those rules. When the chief executive is replaced, a new pyramid is built and various actors have to invest new resources into integrating into the new system and adjusting to a new set of rules. The period of political change is therefore associated with new costs and, for some economic actors, serious economic risks. This situation of uncertainty affects the economic actors perceptions of corruption. The systemic corruption is accepted by most actors operating within the system because firms have to adjust to the system in order to operate within it; however, when they face new dangers associated with political transition, they could be expected to complain about more corruption in the system (because of the dangers facing their firms specifically).

In short, the regional political cycles influence firms' perceived horizons of stability and shape their attitudes about the regional business environment. The unexpected finding of divergence of indicators of corruption perceptions and the view of 'corruption as an

obstacle' presented in the earlier section should arguably be understood along these lines as well. Firms complain about state officials, informal payments and state capture more in the period of uncertainty (or when such periods are more frequent due to the overall political volatility in the system), but at the same time do not see corruption as a bigger of an obstacle. Arguably, they comprehend that the underlying reason for uncertainty is the nature of rules of the game that change, not the corruption itself (the overall system is accepted as given and the main preference is to keep relative privileges enjoyed under a given power arrangement). We know that only closely connected firms survive the economic competition in Russia and this political selection and adaptation has been going on for a while. Firms undoubtedly understand the specificities of the system – if they maintain their spot on the market and are available still for responding to various survey questionnaires. In short, the economic actors' perceptions of what corruption looks like and when it is most problematic in a system characterized by the dominance of informal agreements and the dependence of economic actors on access to and sometimes, protection from the state, requires a more in-depth study conducted not through large-N surveys but through the more carefully calibrated, structured, in-depth personal or focus group interviews.

The analysis presented in this study could also be viewed through the framework of 'closed-access orders' – systems characterized by the limited political and economic competition.³⁹ Economic and political actors, who have access to resources, in such systems, are most interested in the upkeep of the system and their privileged access within it. Any kind of political destabilization is undesirable and viewed as bringing back the chaos, disorder and violence in a system where the achievement of order and stability and, therefore, some level of predictability, is the main concern. The national level narrative promoted by Vladimir Putin therefore focuses on the order and stability achieved during the 2000s, juxtaposing this new order to the chaotic and, allegedly, dreadful 1990s characterized by much more political pluralism and political and

³⁹ See Douglas North, John Wallis and Barry Weingast, *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History* (New York: Cambridge University Press, 2009).

economic competition.⁴⁰ It is evident that the level of corruption in Russia has increased dramatically and its systemic nature has become more entrenched, yet the argument about the 1990s is one of the most potent legitimization tropes in contemporary Russia.

The analysis in this study points to the need for more caution in treating corruption perceptions as a proxy for real corruption. Using the same BEEPS data on corruption, Sidorkin and Vorobyev (2018) argued that regional corruption increases when governors expect their own departure. The causal mechanism described in their study – that of regions experiencing a kind of ‘looting’ by the departing regional administration – arguably simplifies the realities due to confusing firms corruption perceptions (argued here to be caused by the sense of uncertainty rather than the real state of corruption) with actual corruption in the regions and does not take into account several other important factors. Gubernatorial turnovers – especially in the era of appointments - are often quite unpredictable even to governors themselves.⁴¹ It has been observed that such turnovers are frequently paralleled by media campaigns against the sitting governors and scandals surrounding the regional administration officials. However, such atmosphere can sometimes go on over months and even years. And governors can try to defend themselves by appealing to their patrons in Moscow or elsewhere. To expect that during such uncertain time their behavior would become even more brazen with regards to corruption appears as a bit far-fetched. If anything, the governors faced with such uncertainty could be expected to behave more accurately, especially in the presence of law enforcement agencies, as it has frequently happened.

The question of measuring actual corruption is very challenging indeed. In this study, the indicator for corruption experience did not produce consistent results and, instead of rationalizing the inconsistencies, it appears to be more intellectually honest to note that the measure of actual corruption implemented through the reports of the share of annual

⁴⁰ For more on this logic of transformation from the 1990s to the 2000s, see Sharafutdinova 2010.

⁴¹ Various think tanks and agencies constructing gubernatorial ratings in Russia try to predict ‘who is next.’ But frequently these decisions are made *en masse*, by the Kremlin, as was clearly demonstrated in a massive turnover of regional governors in 2017.

sales paid as bribes is likely to be problematic and not reflect realities with corruption. The propensity for honest reporting on the actual share of bribes would differ dramatically across the regions and, in all likelihood, follow different rationales for such divergences. In some regions there might be an accepted norm of bribe-taking by some state agencies and the firms might report on that; in other regions (more politically stable and integrated) bribes might not play an important role because the economic sphere is dominated by firms closely connected to government officials and, thus, be protected by them. Yet another scenario is that firms in regions with more active and recent anti-corruption activities might be afraid to report these numbers to start with, denying that bribery plays an important role.⁴²

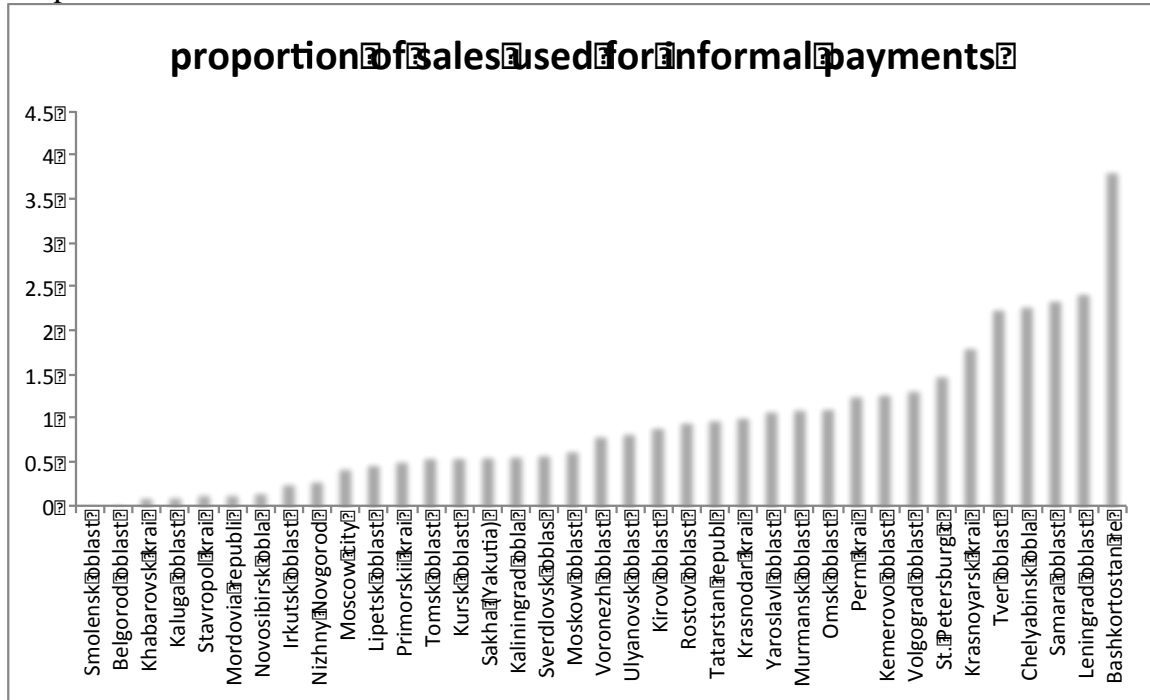
It is also important to pay attention to the temporal dynamics of regional corruption that might or might not produce a shift in perceptions of corruption. The activation of law enforcement agencies in the regions since 2012 and the unprecedented and growing number of arrests and convictions of sitting governors in the last few years might have changed the situation in this realm. It is clear that the Kremlin is trying to send a signal that corruption is tolerated less. But given corruption is systemic and the actors comprehend it in that way, the way governors react to this signal might activate responses that do not relate to corruption itself but to various strategies of escaping the accountability. The research agenda on corruption in Russia therefore remains wide open for further studies.

⁴² The law enforcement agencies have been activated in the last years but their activities were not uniform in all regions.

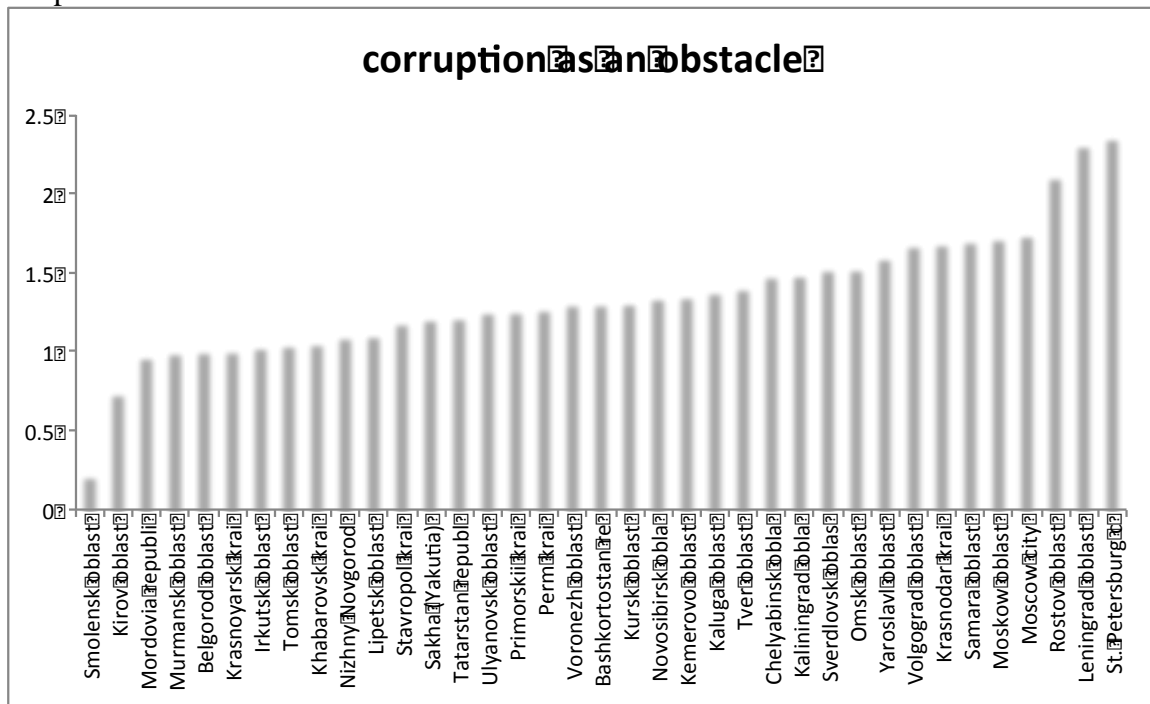
Appendices

A. Descriptive Statistics

Graph 1



Graph 2



B. Regression Tables

Table 1. Corruption Perceptions

(ordered logit models)

| | Model 1 | Model 2 | Model 3 | Model 4 |
|--|-------------------|-------------------|-------------------|-------------------|
| Frequency of informal payments to get things done | | | | |
| Future turnover | -0.006 (0.088) | | | |
| Past turnover | 0.593*** (0.109) | 0.595*** (0.102) | 0.604*** (0.102) | 0.002 (0.009) |
| Elite conflict | | | 0.171** (0.081) | 0.148* (0.083) |
| Polit volatility | | 0.060* (0.033) | 0.056* (0.032) | 0.059* (0.034) |
| Insider | -1.058*** (0.092) | -1.053*** (0.093) | -1.094*** (0.093) | -0.966*** (0.097) |
| Frequency of informal payments to customs/imports | | | | |
| Future turnover | -0.006 (0.088) | 0.234 (0.981) | 0.280 (1.072) | 0.070 (0.976) |
| Past turnover | 0.593*** (0.109) | 0.595*** (0.102) | 0.604*** (0.102) | |
| Elite conflict | | | 0.171** (0.081) | 0.148* (0.083) |
| Polit volatility | | 0.060* (0.033) | 0.056* (0.032) | 0.059* (0.034) |
| Insider | -1.058*** (0.092) | -1.053*** (0.093) | -1.094*** (0.093) | -0.966*** (0.097) |
| Frequency of informal payments to courts | | | | |
| Future turnover | -0.006 (0.088) | 0.234 (0.981) | 0.280 (1.072) | 0.070 (0.976) |
| Past turnover | 0.593*** (0.109) | 0.595*** (0.102) | 0.604*** (0.102) | |
| Elite conflict | | | 0.171** (0.081) | 0.148* (0.083) |
| Polit volatility | | 0.060* (0.033) | 0.056* (0.032) | 0.059* (0.034) |
| Insider | -1.058*** (0.092) | -1.053*** (0.093) | -1.094*** (0.093) | -0.966*** (0.097) |
| Frequency of informal payments to tax collection officers | | | | |
| Future turnover | -0.011 (0.105) | | | |
| Past turnover | 0.696*** (0.132) | 0.708*** (0.128) | 0.729*** (0.128) | |
| Elite conflict | | | 0.287*** (0.108) | 0.248** (0.106) |
| Polit volatility | | 0.083* (0.045) | 0.074* (0.042) | 0.067 (0.044) |
| Insider | -1.066*** (0.112) | -1.058*** (0.111) | -1.121*** (0.112) | -0.971*** (0.115) |
| Corruption as an obstacle | | | | |
| Future turnover | 0.073 (0.080) | | | |
| Past turnover | 0.350*** (0.120) | 0.320*** (0.109) | 0.322*** (0.109) | |
| Elite conflict | | | 0.076 (0.083) | 0.067 (0.084) |
| Polit volatility | | -0.088** (0.036) | -0.089** (0.036) | -0.087** (0.037) |
| Insider | -0.277** (0.095) | -0.275*** (0.092) | -0.291*** (0.092) | -0.225** (0.088) |

Note: ***P < 0.01, **P < 0.05, *P < 0.1

Table 2 Perceptions of State Capture
(ordered logit models)

| | Model 1 | Model 2 | Model 3 | Model 4 |
|---|-------------------|-------------------|-------------------|-------------------|
| Informal payments to parliamentarians have direct impact | | | | |
| Future turnover | 0.183 (0.157) | | | |
| Past turnover | 0.841*** (0.161) | 0.826*** (0.151) | 1.000*** (0.152) | -0.012 (0.017) |
| Elite conflict | | | 0.781*** (0.132) | 0.629*** (0.131) |
| Polit volatility | | 0.277*** (0.059) | 0.250*** (0.051) | 0.217*** (0.056) |
| Insider | -1.162*** (0.143) | -1.156*** (0.138) | -1.358*** (0.140) | -1.192*** (0.154) |
| Informal payments to government officials have direct impact | | | | |
| Future turnover | 0.280* (0.149) | | | |
| Past turnover | 0.889*** (0.153) | 0.817*** (0.145) | 0.998*** (0.144) | |
| Elite conflict | | | 0.853*** (0.124) | 0.705*** (0.126) |
| Polit volatility | | 0.271*** (0.059) | 0.250*** (0.053) | 0.215*** (0.057) |
| Insider | -1.119*** (0.140) | -1.105*** (0.135) | -1.339*** (0.139) | -1.157*** (0.152) |
| Informal payments to regional officials have direct impact | | | | |
| Future turnover | 0.112 (0.136) | | | |
| Past turnover | 0.659*** (0.141) | 0.654*** (0.135) | 0.767*** (0.135) | |
| Elite conflict | | | 0.694*** (0.112) | 0.610*** (0.115) |
| Polit volatility | | 0.242*** (0.050) | 0.217*** (0.047) | 0.196*** (0.050) |
| Insider | -0.958*** (0.130) | -0.945*** (0.126) | -1.124*** (0.129) | -0.985*** (0.138) |

Note: ***P < 0.01, **P < 0.05, *P < 0.1

Table 3 Corruption Experience
(Percentage of annual sales paid as informal payments, Heckit regression model)

| | Model 1 | Model 2 | Model 3 | Model 4 |
|------------------|------------------|------------------|------------------|------------------|
| Future turnover | -0.085** (0.040) | | | |
| Past turnover | 0.134*** (0.047) | 0.163*** (0.046) | 0.156*** (0.047) | |
| Elite conflict | | | -0.107** (0.049) | -0.115** (0.049) |
| Polit volatility | | 0.033* (0.017) | 0.032* (0.017) | 0.027 (0.017) |
| Insider | -0.036 (0.055) | -0.050 (0.054) | -0.015 (0.052) | -0.005 (0.055) |

Note: ***P < 0.01, **P < 0.05, *P < 0.1